Airline industry to lose $9bn this year

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Global airlines are forecast to make losses of $9bn this year, double the level forecast as recently as March, according to Iata, the global airline trade association.

Airline losses in the first three months of the year have already been much worse than expected as a result of very sharp falls in both revenues and yields (average fare levels), Giovanni Bisignani, Iata director general told the organisation's annual meeting on Monday.

Many global airlines including leaders in Europe such as Air France-KLM and British Airways are already facing a second successive year of losses, and carriers are already expressing concern about the renewed spurt in oil prices, as the slump continues in the global economy.

Some carriers are being propped up by state aid, in particular, in parts of Asia and the Middle East.

Mr Bisignani said there had been growing signs of a bottoming-out of the recession, but any recovery in air traffic ahead faced several "severe headwinds" including the high level of consumer debt and high business inventories.

The Iata forecast of net losses for the airline industry of $9bn this year is nearly double the $4.7bn forecast in March and follows estimated net losses of $10.4bn in 2008. Airlines were profitable in 2007, but otherwise have been in loss every year since 2001.

The industry suffered net losses of $41.6bn between 2001 and 2006 and is forecast to make further combined losses of $19.4bn in 2008 and 2009.

The biggest losses of $3.3bn this year are forecast in the Asia-Pacific region, where carriers have been hit hardest by the twin blows of the steep decline in demand for air travel from business passengers – the segment where airlines traditionally generate the bulk of their profits – and the unprecedented drop in air cargo volumes.

Middle East carriers are forecast to suffer losses of $1.5bn with further losses of $1bn each in both North America, mainly among cargo carriers, and in Europe.

Passenger airlines in North America have been helped by having made big early cuts in capacity, in particular in the domestic market, which originally had been designed to combat the record oil prices of last summer but which were in place to respond to the plunge in demand since last autumn.

Business inventories remained far too high for there to be any significant recovery in air cargo, said Iata. "Warehouses are still full. Until inventories fall to more comfortable levels, shipments by air of components and finished products will not rebound substantially," it said.

Iata also warned that consumers – facing weak job security and falling asset prices – would rather use a significant part of their existing income or any new cash to pay down debt than spend or travel.

The airline group said air cargo volumes had fallen by 20 per cent in the first quarter from the same period a year ago, while passenger numbers were down by eight per cent.

It forecast an average decline for air cargo of 17 per cent for the full year and a decline in passenger numbers of eight per cent with little growth in 2010.

Airline revenues are forecast to fall by 15 per cent or $80bn this year to $448bn, as the industry shrinks and excess capacity causes fares and cargo rates to decline rapidly.

Capacity was being cut but not fast enough to meet the slump in demand, said Iata, as airlines flew with more empty seats. Capacity was still growing in the Middle East and Asia.

The fall in revenues was still far greater than the $59bn fall forecast in the industry's fuel costs in 2009.

More than 800 new jets (above 120 seats) would be delivered by Airbus and Boeing this year requiring capital spending of an estimated $23bn, which would mean the industry would be consuming cash for the second successive year in 2009.

To date airlines have raised about $8bn in fresh cash this year, $4bn on the capital market and $4bn through the sale and leaseback of aircraft.

"The longer the recovery is delayed the greater the risk posed by the drain on cash," said Iata.

Financial Times, New York, June 8, 2009, Companies, online.